

CITY COUNCIL REPORT



Meeting Date: February 15, 2011
General Plan Element: **Public Services & Facilities**
General Plan Goal: **Provide city service facilities to meet the needs of the community**

ACTION

Consider options related to Arizona American Water Company (AAWC) service area within the City of Scottsdale.

- A. At the recommendation of the Water Subcommittee, discuss and provide possible direction, and/or take possible action, for the City to pursue negotiating with Arizona American Water Company (AAWC) and/or EPCOR Water USA Inc. for the acquisition of the Scottsdale portion of AAWC's Paradise Valley service area.
- B. At the request of Councilwoman Klapp, consider adopting **Resolution No. 8584** directing that the Paradise Valley Water District Study Summary Report dated August 2009 and prepared by Carollo Engineers, P.C., for the City of Scottsdale be declared a public record.

BACKGROUND

On December 13, 2010, the City Council did not approve a proposed Treat and Transport Agreement with AAWC as it was presented. Staff was directed to address concerns expressed by members of Council and to bring back potential solutions for Council to consider. The Treat and Transport Agreement would be a significant step toward protecting groundwater sustainability for current and future citizens of the City of Scottsdale, allowing renewable water sources to be used whenever possible to meet demand.

Arizona American's PVWD serves an area of approximately 7.8 square miles, of which approximately 1.0 square mile is located within the City's municipal limits, and the remainder of which is within the Town of Paradise Valley. Arizona American currently serves approximately 1,420 metered accounts in Scottsdale. The AAWC service area has historically relied 100% on groundwater due to AAWC's lack of capability to treat its annual CAP raw water allocation of 3,231 acre-feet.

Recent focus was brought to the AAWC service area when two incidents occurred at the AAWC Miller Road Treatment Facility (MRTF) in 2007/2008 which resulted in Trichloroethylene (TCE) entering the AAWC drinking water distribution system. The MRTF uses air-stripping technology to remove volatile organic compounds such as TCE from the contaminated groundwater. Public concern over these events prompted AAWC to discontinue use of groundwater from a well, PCX-1, associated with the North Indian Bend Wash (NIBW) Superfund Site remedy that requires treatment

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at the MRTF. Discontinuing use of this well, owned by Salt River Project, required AAWC to increase groundwater pumping in other wells.

On March 18, 2008, the City Council directed staff to conduct a study to include detailed engineering evaluations, financing and repayment alternatives, and an estimated approximation of the value of assets necessary to determine the feasibility of adding Scottsdale businesses and households which are currently Arizona American customers to the Scottsdale City Water System. In August, 2009, Carollo Engineers, P.C, in conjunction with Sacks Tierney, issued a report to the City Attorney's office detailing the technical, financial, and legal feasibility of acquisition of the AAWC Paradise Valley Water District. This report has been prepared as an attorney work product and therefore has to date been kept confidential and not subject to public disclosure.

Discussions associated with multiple processes (NIBW Superfund meetings, City Council Subcommittee on Water Issues, etc.) focused on the AAWC Paradise Valley Water District and prompted consideration of a Treat and Transport Agreement between the City and AAWC to implement the use of surface water to meet some of the Company's demand. In order to facilitate treatment of the AAWC CAP raw water allocation at the Chaparral Water Treatment Plant (CWTP), the City would need to install a new pipeline from the CWTP to the AAWC service area. As part of the proposed agreement, AAWC would reimburse all City costs for the treatment and transport of the AAWC CAP raw water allocation, along with the infrastructure required to deliver the finished water to the AAWC system.

These types of agreements are common between utilities and can provide benefits to all parties including the customers. It can be very beneficial to take advantage of economies of scale by building larger treatment facilities that may serve more than one entity than to build multiple, small facilities to serve smaller individual service areas. This is most advantageous to communities that share borders. Local examples of this type of successful cooperation include:

- SROG 91st Ave Wastewater Treatment plant (Phoenix, Scottsdale, Glendale, Tempe and Mesa)
- Val Vista Water Treatment Plant (Phoenix and Mesa)
- Santan Vista Water Treatment Plant (Gilbert and Chandler)

Other examples specific to Scottsdale include:

- Liberty Water (receive Liberty sewage into COS system and treat at the Water Campus)
- Berniel Water (provide Berniel with water service on an emergency basis)
- Paradise Valley (receive its sewage into COS system, of which some is delivered to SROG and some to the City's Water Campus)

Most recently Scottsdale renewed an agreement with the Carefree Water Company to provide water service through the treat and transport of CAP water. This agreement was approved by Council in 1989, and was again approved with minor amendments on November 20, 2007.

Analysis & Assessment

The City and AAWC negotiated terms of an agreement which could directly benefit City residents primarily through protection of groundwater sustainability. By using its full CAP surface water allocation as required through the Agreement, AAWC would no longer fully rely on groundwater (pumping will be reduced by 3 million gallons per day (MGD)). This agreement would also allow the City to recover a proportionate share of original investment of the CWTP which was designed and constructed to meet demands associated with anticipated future growth. If the plant needs to be expanded, improved and/or rehabilitated in the future, the agreement provides a proportionate share of the cost will be borne by AAWC.

As part of the agreement, AAWC committed to create a rate structure that would encourage water sustainability and conservation and present the proposed rates to the Arizona Corporation Commission (ACC) for final approval. Should the ACC not approve the rate structure, the company agreed to work with the City to revise the proposed rate structure in a manner acceptable to the City to gain approval by the ACC.

On January 24, 2011, American Water announced that it has entered an agreement to sell its water and wastewater systems in Arizona and New Mexico to EPCOR Water USA, Inc (attachment #1). Immediately following the announcement of the pending sale, AAWC stated its continued interest in a Treat and Transport agreement with the City of Scottsdale (attachment #2). City staff has not had discussions with EPCOR regarding its pending acquisition of American Water interests or about the proposed Treat and Transport agreement.

OPTIONS

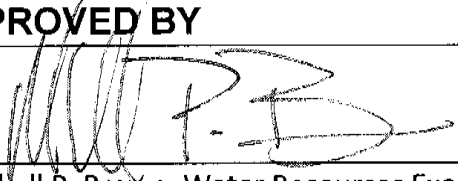
- A. Direct City staff to pursue negotiating with Arizona American Water Company (AAWC) and/or EPCOR Water USA Inc. for the acquisition of the Scottsdale portion of the Paradise Valley service area.
- B. Adopt **Resolution No. 8584** directing that the Paradise Valley Water District Study Summary Report dated August 2009 and prepared by Carollo Engineers, P.C., for the City of Scottsdale be declared a public record.

RESPONSIBLE DEPARTMENT(S)

City Council Report | Options related to Arizona American Water Company (AAWC) service area within the City of Scottsdale

Marshall Brown, Executive Director Water Resources
(480) 312-5683, mpbrown@ScottsdaleAZ.gov

APPROVED BY


Marshall P. Brown, Water Resources Executive Director
(480) 312-5683, mpbrown@ScottsdaleAZ.gov

2/1/11
Date


David Richert, City Manager
(480) 312-2811, drichert@scottsdaleaz.gov

2/1/11
Date

ATTACHMENTS

1. January 24, 2011 "announcement" letter from Arizona American Water
2. January 24, 2011 "interest" letter from Arizona American Water
3. Resolution No. 8584



ARIZONA
AMERICAN WATER

Marshall Brown
City of Scottsdale
3939 N. Drinkwater Boulevard
Scottsdale, AZ 85251

Paul Townsley, President
Arizona American Water
2355 W. Pinnacle Peak Rd.
Suite 300
Phoenix, AZ 85027
P: 623-445-2448
www.amwater.com

Dear Marshall ,

I am communicating with you today because, as you may have read, American Water announced that it has entered into an agreement to sell its water and wastewater systems in Arizona and New Mexico to EPCOR Water USA Inc.

I want to let you know that American Water's decision to sell its operations in Arizona and New Mexico was not taken lightly. In fact, the decision was a result of a strategic review the company has undertaken to ensure that American Water is operating in a manner where its business units can best serve customers.

Most importantly, I want to ensure you that both American Water and EPCOR USA are committed to working together to ensure customers continue to receive high quality reliable service throughout the sale transition. EPCOR USA said that employees will continue to operate these systems within the EPCOR family, once the transaction closes.

EPCOR builds, owns and operates water and wastewater treatment facilities, providing water and wastewater services to more than one million people in 70 communities. EPCOR USA is not new to the southwest. In 2010, EPCOR USA entered into an agreement with the American States Water Company (an entity not related to American Water) to purchase and operate the Chaparral City Water Company, which serves 13,000 customers in the town of Fountain Hills, Arizona.

The employees of American Water have had the privilege of providing water services to your community for many years and our primary focus remains on the delivery of quality service to your constituents and our customers.

We will keep you apprised of any new information. In the meantime, I look forward to continuing our relationship and welcome any questions you may have. I have also enclosed a fact sheet about EPCOR with this letter for your reference. Again, please do not hesitate to call me with further questions.

Sincerely,

Paul Townsley, President
Arizona American Water

EPCOR Utilities Inc. Fact Sheet

With more than 100 years of experience, EPCOR Utilities Inc. (EUI) builds, owns and operates water and wastewater treatment facilities and infrastructure, and electrical transmission and distribution networks. EPCOR is headquartered in Edmonton, Alberta, Canada, and provides water and wastewater services to over one million people in more than 70 communities in Western Canada.

EPCOR USA, a wholly-owned subsidiary of EUI, is currently pursuing opportunities in the U.S. southwest and has established an office in Phoenix, Arizona. The company acquired Chaparral City Water Company in 2010, which is located 25 miles NE of Phoenix. Regulatory approval for this transaction is expected in the first quarter of 2011.

In Alberta and British Columbia, EPCOR owns seven and operates 17 other water treatment and/or distribution facilities. EPCOR also owns five wastewater treatment and/or collection facilities and operates 19 other facilities in the same provinces. Its water products and services are concentrated in three areas – treated water sales, commercial services, and operating contracts.

EPCOR's technical expertise includes using advanced and highly automated water treatment systems, ultraviolet (UV) disinfection, and remote systems capable of monitoring all sizes of facilities. It also focuses on the industrial sector by providing drinking water and process water, as well as wastewater treatment, including recycled water.

EPCOR's water and wastewater operations meet or surpass stringent Canadian federal, provincial, and municipal water quality requirements. In 2008, its Quality Assurance Laboratory scored the highest among 68 labs across Canada and the U.S. in tests administered by the U.S. Environmental Protection Agency (EPA).

EPCOR water helped fuel athletes and spectators at the Vancouver 2010 Olympic and Paralympic Winter Games. In 2008, an EPCOR-led team completed construction of both the water supply and wastewater facilities for the Whistler Olympic / Paralympic Park. EPCOR operated both facilities during the Games.

Also in British Columbia, EPCOR worked with the B.C. Government to design, build and operate a water treatment facility at the abandoned Britannia Mine, which had a reputation as being one of the largest heavy metal pollution sources in North America. Since operations began in 2005, the plant has removed 750,000 kg (1.5 million pounds) of heavy metal contaminants from the mine water, which once flowed untreated into Howe Sound. Today, the facility has helped to create some of the best environmental conditions in Howe Sound's intertidal region in over 100 years.

EPCOR's Gold Bar Wastewater Treatment Plant in Edmonton is one of Canada's largest tertiary treatment plants. It treats upwards of 100,000 million litres annually – enough to fill an Olympic-sized swimming pool over one hundred times a day. Environment Canada has placed Edmonton among the top 10 best cities in Canada for wastewater treatment. Gold Bar introduced the first major industrial application of membrane filtration technology in Canada to treat and reuse domestic wastewater for industrial purposes.

EPCOR also distributes energy to approximately 340,000 customers in the City of Edmonton through 29 transmission substations, 203 km of aerial transmission lines, and 5,082 km of primary distribution lines. The company provides regulated rate option electricity service to over 600,000 retail electricity customers in Alberta.

EPCOR's sole Shareholder is the City of Edmonton. It is a Top 50 Alberta Employer and has been cited as having one of the 10 Most Admired Corporate Cultures in Western Canada. In 2010, EPCOR earned an A+ in corporate responsibility reporting for the second year in a row. Don Lowry, EPCOR's President and Chief Executive Officer, was named Alberta's 2010 Business Person of the Year.



January 24, 2011

Hon. Jim Lane and Members of the Council
City of Scottsdale
3939 North Drinkwater Boulevard
Scottsdale, AZ 85261

Paul Townsley, President
Arizona American Water
2355 W. Pinnacle Peak Rd.
Suite 300
Phoenix, AZ 85027
P: 623-445-2448
www.amwater.com

Dear Mayor Lane and Members of the Council:

As you now know, American Water announced today that it has entered into an agreement with EPCOR Water (USA) Inc. to sell the stock of its water and wastewater companies located in Arizona and New Mexico. This transaction is subject to regulatory approval in Arizona and New Mexico. I am excited about the chance to work with the EPCOR group. As you may know, they are also in the process of purchasing Chaparral City Water Company.

I realize an announcement of this type raises several questions. I want to confirm a few details for you:

- Our operations will not change. Customers will be provided the same service by the same employees who strive to do their best every day.
- This is the sale of the stock of the entire business in Arizona and New Mexico, individual parcels or assets are not for sale.
- This does not, in any way, affect the need for or our support for the revised treat and transport agreement.
- As you know, the ACC regulatory process is lengthy, open and transparent. There will be ample opportunity for community involvement throughout this process.

We will be working closely with EPCOR to make this transition seamless for our customers in Scottsdale and Paradise Valley as well as the rest of the State.

I want to reconfirm with all of you that this announcement does not change the need for prompt approval of the treat and transport agreement. Every day of delay in implementing the treat and transport solution represents 3 million gallons of groundwater that is unable to be preserved.




I know this announcement took many people by surprise. Because American Water is a publicly traded company, SEC regulations prohibited any advance notice to any stakeholders, including the City.

I look forward to working together with the City to implement the treat and transport agreement, which remains the lowest cost and most sustainable option for our customers and your constituents.

Please do not hesitate to contact me at anytime if you have any questions or concerns about this transaction or any other aspect of our service to Scottsdale. I can be reached at 623 445 2448.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Townsley". The signature is fluid and cursive, with a large initial "P" and a stylized "T".

Paul Townsley
President

cc: Marshall Brown

RESOLUTION NO. 8584

A RESOLUTION OF THE COUNCIL OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA, DECLARING THAT THE PARADISE VALLEY WATER DISTRICT STUDY SUMMARY REPORT DATED AUGUST 2009 AND PREPARED BY CAROLLO ENGINEERS, P.C. FOR THE CITY OF SCOTTSDALE BE MADE A PUBLIC RECORD

WHEREAS, on July 1, 2008, the City Council approved Resolution 7659 authorizing and directing that the City enter into Contract No. 2008-102-COS with Carollo Engineers, P.C. to conduct a study of the Arizona American Water Company – Paradise Valley Water District; and

WHEREAS, on July 1, 2008 the City and Carollo Engineers, P.C. did enter into Contract No. 2008-102-COS; and

WHEREAS Carollo Engineers, P.C. in August, 2009 did complete pursuant to Contract No. 2008-102-COS the Paradise Valley Water District Study Summary Report;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Scottsdale, Maricopa County, Arizona, as follows:

Section 1. The Paradise Valley Water District Summary Report prepared by Carollo Engineers, P.C. is hereby declared to be a public record and is to be made available to the public in the manner provided for in the public records laws of the State of Arizona.

PASSED AND ADOPTED by the City Council of the City of Scottsdale, Arizona, this 15th day of February, 2011.

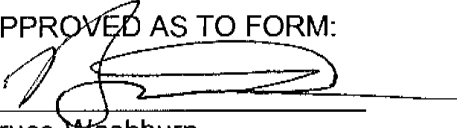
CITY OF SCOTTSDALE, an
Arizona municipal corporation

ATTEST:

W. J. "Jim" Lane
Mayor

Carolyn Jagger
City Clerk

APPROVED AS TO FORM:



Bruce Washburn
City Attorney